

Financial Statements
Tuscola County Community
Mental Health Authority

Caro, Michigan

September 30, 2008



Tuscola County Community Mental Health Authority
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INDEPENDENT AUDITOR'S REPORT

Tuscola County Community Mental Health Authority
Caro, Michigan

We have audited the accompanying financial statements of the governmental activities, each major fund and the aggregate remaining fund information of Tuscola County Community Mental Health Authority (the Authority), as of and for the year ended September 30, 2008, which collectively comprise the Authority's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the Authority's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, each major fund and the aggregate remaining fund information of the Authority as of September 30, 2008, and the respective changes in financial position and, cash flows, where applicable, thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated December 15, 2008 on our consideration of the Authority's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and important for assessing the results of our audit.

The Management's Discussion and Analysis and budgetary comparison information are not a required part of the basic financial statements but are supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming an opinion on the financial statements that collectively comprise the Authority's basic financial statements. The other supplemental financial information listed in the table of contents is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

A handwritten signature in black ink that reads "Roslund, Prestage & Co, PC". The signature is written in a cursive, flowing style.

Roslund, Prestage & Company, P.C.
Certified Public Accountants

December 15, 2008

MANAGEMENT'S DISCUSSION and ANALYSIS



Tuscola County Community Mental Health Authority

Management's Discussion and Analysis

For the year ended September 30, 2008

This section of the Tuscola County Community Mental Health Authority (TCCMHA) annual financial report presents management's discussion and analysis of financial performance for the year ended September 30, 2008. This discussion and analysis is designed to assist the reader in focusing on significant financial issues and activities, and to identify significant changes in financial position and results of operations. Please read this section in conjunction with the auditor's report, financial statements, notes to financial statements and supplemental information taken as a whole.

FINANCIAL HIGHLIGHTS

- The current financial position, which is the excess of current assets over current liabilities, of TCCMHA was a positive \$603 thousand an increase from FY07 of \$224 thousand.
- Capital assets increased by \$171 thousand or 6% from FY07.
- Funds restricted for capital purposes decreased by \$234 thousand or 27% from FY07. Unrestricted net assets increased by \$227 thousand or 41% from FY07.

OPERATING HIGHLIGHTS

TCCMHA continued its commitment to the consumers of Tuscola County.

- In 2008, TCCMHA continued to expand its use of Evidence Based Practices with the implementation of Integrated Dual Disorders Treatment (IDDT). Work also progressed toward the implementation of Family Psycho-education and preparation began for staff training in Parent Management Training – Oregon model (PMTO). Staff continued the use of Dialectical Behavioral Therapy (DBT).
- During 2008, the consolidation of clinical services into the Personal Independence Center was completed. This move consolidated all outpatient clinical functions into one location. In addition, administrative services were moved from a leased location on Lincoln Street to an agency owned building on State Street. All TCCMHA direct operated services are now provided in locations that are owned by TCCMHA.
- The decision to switch from accreditation through the Joint Commission on Accreditation (JCAHO) to accreditation through Commission on Accreditation of Rehabilitation Facilities (CARF) was made during 2008. Considerable work was completed by staff in preparation for this accreditation survey. The survey was held in October 2008 with TCCMHA receiving a 3 year accreditation.
- Also during 2008, TCCMHA received notification that we had been awarded 2 Federal Block Grants for FY 09. The two block grants were for Peer Support

Tuscola County Community Mental Health Authority
Management's Discussion and Analysis
For the year ended September 30, 2008

Specialists Training and Anti-Stigma marketing/promotion. These were the first two block grants that TCCMHA had applied for in several years.

OVERVIEW OF FINANCIAL STATEMENTS

Basic financial statements, in accordance with generally accepted accounting principles (GAAP) according to GASB 34, require the presentation of two types of financial statements. These are government-wide financial statements and fund financial statements.

Government-wide financial statements include the statement of net assets and the statement of activities. These provide both long-term and short-term information, and present a broad view of the overall financial status in a manner similar to a private sector business. Information presented in these statements is on the accrual basis of accounting. Long-term assets are capitalized and depreciated. Long-term debt is recorded as a liability. Revenues are recorded when earned and expenses recorded when incurred, without regard to the timing of cash receipts or disbursement.

The statement of net assets includes all assets and liabilities, with the difference between the two reported as net assets. Over time, increases or decreases in net assets may serve as a useful indicator of improving or deteriorating financial position. The statement of activities presents information showing how net assets changed during the year as a result of operating activity.

Fund financial statements contain individual groups of related accounts and are used to report current assets, current liabilities, fund balance, revenues and expenditures for specific activities or funds segregated for legal requirements or other governmental objectives. These are presented in more detail as compared to the government-wide statements. The fund financial statements are reported on the modified accrual basis of accounting. Only those assets that are measurable and currently available are reported. Liabilities are recognized only to the extent that they are normally expected to be paid with current financial resources. Purchased capital assets are reported as expenditures in the year of acquisition. Issuance of debt is recorded as a financial resource with current year payment of principal and interest recorded as an expenditure. Fund financial statements are essentially identical in presentation, format and content to prior year annual financial reports.

Fund financial statements are divided into two categories. These are general fund financial statements and proprietary fund financial statements.

General fund financial statements show how the community mental health supports and services programs were financed in the short term, along with what remains for future spending.

Tuscola County Community Mental Health Authority
Management's Discussion and Analysis
For the year ended September 30, 2008

Proprietary fund financial statements show internal service funds reserved for risk management. These funds are held as a self-funded insurance risk reserve to protect against unanticipated current and future financial exposures related to specialty supports and services at-risk contracts.

SUMMARY OF NET ASSETS

The following summarizes the assets, liabilities and net assets on a government-wide basis as of September 30, 2008 and 2007.

Summary of Net Assets

As of September 30, 2008 and 2007
(In \$000s)

| | <u>2008</u> | <u>2007</u> | <u>\$ Change</u> |
|---|------------------------|------------------------|-----------------------|
| <u>Assets</u> | | | |
| Current assets | \$ 1,502 | \$ 1,730 | (228) |
| Restricted assets | 323 | 334 | (11) |
| Capital assets | 3,267 | 3,096 | 171 |
| Total assets | <u><u>\$ 5,092</u></u> | <u><u>\$ 5,160</u></u> | <u><u>\$ (68)</u></u> |
| <u>Liabilities</u> | | | |
| Current liabilities | \$ 899 | \$ 1,351 | (452) |
| Noncurrent liabilities | 2,772 | 2,381 | 391 |
| Total liabilities | <u><u>3,671</u></u> | <u><u>3,732</u></u> | <u><u>(61)</u></u> |
| <u>Net Assets</u> | | | |
| Investment in capital assets | 644 | 878 | (234) |
| Restricted for risk management | - | - | - |
| Unrestricted | 777 | 550 | 227 |
| Total net assets | <u><u>1,421</u></u> | <u><u>1,428</u></u> | <u><u>(7)</u></u> |
| Total liabilities and net assets | <u><u>\$ 5,092</u></u> | <u><u>\$ 5,160</u></u> | <u><u>\$ (68)</u></u> |

Tuscola County Community Mental Health Authority
Management's Discussion and Analysis
For the year ended September 30, 2008

Current financial position is defined as the excess of current assets over current liabilities. A positive current financial position is an indicator of financial strength and an increase in current financial position is an indicator of improving financial position. The current financial position was a positive \$603 thousand for FY08 and \$379 for FY07.

Current assets consist of cash and investments, accounts receivable, amounts due from others, inventory and prepaid expenses. These are available for current operations and to pay current obligations. Current liabilities include accounts payable, accrued payroll, related taxes and benefits, amounts due to others, deferred revenue, and the current portion of long-term debt.

Restricted assets consist of cash and cash equivalents. These assets are restricted for payment of compensated absences.

The assets restricted for payment of compensated absences include vacation, sick and personal pay. At year-end, the balance in this account was \$323 thousand.

Capital assets consist of property and equipment having an estimated useful life of more than one year. Under the provisions of GASB 34, these assets are now included on the statement of net assets at their original book value, restated to be net of the accumulated depreciation that would have otherwise been reported in prior years. As of the beginning of fiscal year 2008, capital assets having an original book value of \$4.9 million were recorded, net of restated accumulated depreciation of \$1.8 million, for a beginning net book value of \$3.1 million.

In fiscal year 2008, \$473 thousand was expended for capital acquisitions, of which \$152 thousand was to complete the renovations at the Personal Independence Center building, and \$306 thousand was to purchase and update our vehicle fleet. Depreciation expense on previously existing and newly acquired capital assets was \$300 thousand. In fiscal year 2008, \$3 thousand was recognized as a net loss on disposal of assets. The net change in capital assets was an increase of \$171 thousand for the year.

As of year-end, the net book value of capital assets was 66% of the original book value compared to 63% at the end of the prior year. This percentage is a measure of the relative age of property and equipment. If property and equipment is relatively new, this percentage will be high. Conversely, if the percentage is low, it means that property and equipment is relatively old.

Noncurrent liabilities consist of long-term debt related to the acquisition of capital assets and the liability for compensated absences. Principal payments for the year were \$151 thousand. The liability for compensated absences includes vested vacation and sick pay obligations and certain deferred compensation amounts. The compensated absences liability at year end was \$352 thousand.

Tuscola County Community Mental Health Authority
Management's Discussion and Analysis
For the year ended September 30, 2008

Restricted net assets include investment in capital assets and net of related debt.

Unrestricted net assets at the end of the year were \$777 thousand. Unrestricted net assets were 15% of total assets, up from 11% from the prior year.

SUMMARY OF ACTIVITIES

The following summarizes the revenues, expenses and change in net assets on a government-wide basis for the years ended September 30, 2008 and 2007.

Summary of Activities

For the years ended September 30, 2008 and 2007

(In \$000s)

| | <u>2008</u> | <u>2007</u> | <u>\$ Change</u> | <u>% Change</u> |
|---|---------------|---------------|------------------|-----------------|
| <u>Revenue</u> | | | | |
| Medicaid specialty supports and services | \$ 10,897 | \$ 10,626 | 271 | 3% |
| State general fund priority populations | 1,677 | 1,636 | 41 | 3% |
| Adult benefits waiver supports and services | 196 | 172 | 24 | 14% |
| Program service revenue | 220 | 255 | (35) | -14% |
| Grants and earned contracts | 134 | 92 | 42 | 46% |
| Cass Valley Enterprises | 1,453 | 820 | 633 | 77% |
| County appropriation | 288 | 288 | - | 0% |
| Interest income | 75 | 84 | (9) | -11% |
| Other income | 49 | 29 | 20 | 69% |
| Total Revenue | 14,989 | 14,002 | 987 | 7% |
| <u>Expense</u> | | | | |
| Personnel expense | 6,468 | 6,022 | 446 | 7% |
| Operating expense | 7,814 | 7,404 | 410 | 6% |
| Local funds contributed to State | 283 | 283 | - | 0% |
| Interest expense | 122 | 75 | 47 | 63% |
| Depreciation | 299 | 215 | 84 | 39% |
| Total Expense | 14,986 | 13,999 | 987 | 7% |
| Change in Net Assets | \$ 3 | \$ 3 | | |

Tuscola County Community Mental Health Authority
Management's Discussion and Analysis
For the year ended September 30, 2008

Excess of revenue over expense from activities for the current year was \$3 thousand.

Medicaid specialty supports and services revenue represents 73% of total revenue. Beginning in fiscal 2003, the Michigan Department of Community Health began contracting for Medicaid specialty supports and services through designated Prepaid Inpatient Health Plans (PIHPs) in regional geographic areas. TCCMHA is affiliated with Bay-Arenac Behavioral Health as the designated PIHP for a region consisting of Bay, Arenac, Huron, Montcalm, Shiawassee, and Tuscola counties. TCCMHA subcontracts for Medicaid funding through the PIHP. This subcontract is on a net cost basis. The cost settlement for FY08 is \$7 dollars.

State general fund priority population revenue (formula funding) represents 11% of total revenue. This funding is established by MDCH as a part of the legislative appropriation process under the Michigan Mental Health Code and is used to provide supports and services to indigent priority populations, including state facility utilization and other allowable expenses.

Adult benefits waiver supports and services revenue represents 1% of total revenue. The adult benefits waiver program was new in fiscal 2004. This program is funded by state general funds and provides health insurance coverage to uninsured childless adults with countable incomes at or below 35% of the federal poverty level.

Program service revenue includes charges for services for consumers not covered by Medicaid risk contracts or state general fund revenue sources. These represent 1% of total revenue.

Grants and earned contract revenue includes revenue sources for which the use of funds is restricted to a specific purpose. These represent 1% of total revenue.

County appropriation revenue, interest income and other local income are available to meet state matching fund requirements. These revenue sources constitute 2% of revenue.

Cass Valley Enterprises revenue includes revenue earned through various industrial operations contracts. These revenue sources constitute 10% of revenue.

Total expense of \$15 million has increased \$987 thousand compared to the prior year.

Personnel expense is 43% of total expense and has increased due to the direct employment of a psychiatrist and also increases in health insurance.

Operating expense is 52% of total expense and has increased. The largest contributing factor is increased sales and production costs at Cass Valley Enterprises.

Interest expense is 1% of total expenses and has increased due to the building purchase and renovations at year end in FY07.

Tuscola County Community Mental Health Authority
Management's Discussion and Analysis
For the year ended September 30, 2008

Statement of Revenues and Expenditures – Original & Final Budget

The following summarizes the original and final budget for revenues and expenses for the year ending September 30, 2008.

Statement of Revenues and Expenditures - Original and Final Budget
For the Year Ended September 30, 2008
(in \$000s)

| | Budgeted Amounts | | |
|--------------------------------------|------------------|----------|----------|
| | Final | Original | Variance |
| Revenue | | | |
| State General Fund - MDCH Contract | 1,694 | 1,626 | 68 |
| Adult Benefit Waiver | 196 | 171 | 25 |
| Title XX | 6 | 6 | - |
| Federal Grants | 27 | 38 | (11) |
| Tuscola County Appropriations | 288 | 288 | - |
| Medicaid - PIHP | 10,897 | 10,668 | 229 |
| Medicaid - Other | 41 | 64 | (23) |
| Client and third Party Pay | 174 | 174 | - |
| Contract Revenue | 91 | 31 | 60 |
| Interest | 74 | 75 | (1) |
| Cass Valley Enterprises | 1,453 | 209 | 1,244 |
| Other | 29 | 23 | 6 |
| Total Revenue | 14,970 | 13,373 | 1,597 |
| Expenditure | | | |
| Salary and Wages | 4,874 | 4,405 | 469 |
| Fringe Benefits | 1,615 | 1,578 | 37 |
| Operating Expenditures | 8,041 | 7,015 | 1,026 |
| Capital Outlay | 474 | - | 474 |
| Debt Service | 281 | 272 | 9 |
| Total Expenditures | 15,285 | 13,270 | 2,015 |
| Excess of revenues over expenditures | (315) | 103 | (418) |

Final versus actual budget variances in state general fund include an increase for use of general fund savings, and a decrease for a carry forward into FY08 of \$68 thousand. Cass Valley Enterprises had an increase in budgeted revenue due to an increase in contract revenue. This change also affected salaries, fringe benefits and cost of goods

Tuscola County Community Mental Health Authority
Management's Discussion and Analysis
For the year ended September 30, 2008

sold. Medicaid revenue increased from the original budget due to an increase from residential and inpatient claims.

Statement of Revenues and Expenditures – Final Budget & Actual

The following summarizes the final budget and actual results for revenues and expenses for the year ending September 30, 2008.

Statement of Revenues and Expenditures - Final Budget & Actual
For the Year Ended September 30, 2008
(in \$000s)

| | <u>Final Budget</u> | <u>Actual</u> | <u>Variance</u> |
|---|----------------------------|----------------------|------------------------|
| Revenue | | | |
| State General Fund - MDCH Contract | 1,694 | 1,677 | (17) |
| Adult Benefit Waiver | 196 | 196 | - |
| Title XX | 6 | 6 | - |
| Federal Grants | 27 | 28 | 1 |
| Tuscola County Appropriations | 288 | 288 | - |
| Medicaid - PIHP | 10,897 | 10,897 | - |
| Medicaid - Other | 41 | 42 | 1 |
| Client and third Party Pay | 174 | 178 | 4 |
| Contract Revenue | 91 | 101 | 10 |
| Interest | 74 | 75 | 1 |
| Cass Valley Enterprises | 1,453 | 1,453 | - |
| Other | <u>29</u> | <u>49</u> | <u>20</u> |
| Total Revenue | 14,970 | 14,990 | 20 |
| Expenditures | | | |
| Salary and Wages | 4,874 | 4,900 | (26) |
| Fringe Benefits | 1,615 | 1,567 | 48 |
| Operating Expenditures | 8,041 | 8,058 | (17) |
| Capital Outlay | 474 | 473 | 1 |
| Debt Service | <u>281</u> | <u>272</u> | <u>9</u> |
| Total Expenditure | 15,285 | 15,270 | 15 |
| Excess of revenues over expenditures | <u>(315)</u> | <u>(280)</u> | <u>35</u> |

Tuscola County Community Mental Health Authority
Management's Discussion and Analysis
For the year ended September 30, 2008

State General Fund – MDCH contract represents the general fund deferred revenue into FY09.

Other Revenue represents the gain on sale from our vehicle fleet of approximately 10 vehicles.

Salaries and Wages represent the increase in the compensated absences liability of \$36 thousand. Actual salary expense was under budget by \$10 thousand.

FUTURE OUTLOOK

Once again, the State of Michigan is struggling to balance huge budget deficits. Federal deficits are placing additional pressures on Medicaid funding. The effect of these on future funding for community mental health and specialty supports and services is unknown. At the present time, Medicaid funding has remained stable.

TCCMHA had been fortunate in previous years to have been able to carry forward general fund dollars to help with funding current year operations. The general fund dollars available going into FY 09 are considerably less than in prior years. This will significantly impact dollars available for services in FY 09. The majority of CMHs in the state are struggling to meet the needs of general fund consumers within the constraints of their general fund funding. This issue has been addressed at the state level, however, it is not expected that there will be any changes made in FY 09 that will provide funding equity of general fund dollars during FY 09.

TCCMHA will continue to operate to maximize the use of funding and will look to collaborate with affiliate partners to create efficiencies.

As always, questions, comments and suggestions are welcomed from interested parties and the general public. These can be directed to management.

**BASIC FINANCIAL STATEMENTS -
GOVERNMENT WIDE FINANCIAL STATEMENTS**



Tuscola County Community Mental Health Authority
Statement of Net Assets
September 30, 2008 and 2007

| | Governmental Activities | |
|---|-------------------------|--------------|
| | 2008 | 2007 |
| Assets | | |
| Current assets | | |
| Cash and equivalents | \$ 102,738 | \$ 22,765 |
| Investments | 833,562 | 1,163,203 |
| Accounts receivable | 43,825 | 106,825 |
| Due from other governmental units | 196,109 | 121,276 |
| Inventory | 78,369 | 176,841 |
| Prepaid items | 247,163 | 138,630 |
| Total current assets | 1,501,766 | 1,729,540 |
| Noncurrent assets | | |
| Cash and cash equivalents - restricted | 323,361 | 333,929 |
| Capital assets - depreciable, net | 3,061,554 | 2,890,980 |
| Capital assets - land | 205,101 | 205,101 |
| Total noncurrent assets | 3,590,016 | 3,430,010 |
| Total assets | 5,091,782 | 5,159,550 |
| Liabilities | | |
| Current liabilities | | |
| Accounts payable | 380,637 | 722,463 |
| Accrued wages and other payroll liabilities | 250,197 | 287,296 |
| Deferred revenue | 13,129 | 53,474 |
| Due to other governmental units | 52,213 | 134,529 |
| Notes payable, current portion | 202,979 | 152,701 |
| Total current liabilities | 899,155 | 1,350,463 |
| Noncurrent liabilities | | |
| Notes payable, net of current portion | 2,419,811 | 2,065,422 |
| Compensated absences | 352,074 | 315,675 |
| Total noncurrent liabilities | 2,771,885 | 2,381,097 |
| Total liabilities | 3,671,040 | 3,731,560 |
| Net Assets | | |
| Invested in capital assets, net of related debt | 643,865 | 877,958 |
| Unrestricted | 776,877 | 550,032 |
| Total net assets | \$ 1,420,742 | \$ 1,427,990 |

See Accompanying Notes To Financial Statements

Tuscola County Community Mental Health Authority
Statement of Activities
For the Year Ended September 30, 2008, With Comparative Data

| Functions | Program Revenues | | | Net (Expense) Revenue and Change in Net Assets | 2007 |
|----------------------------------|----------------------|-------------------------|--|---|---------------------|
| | Expenses | Charges for Services | Operating Grants and Contributions | | |
| Governmental activities | | | | | |
| Health & Welfare - Mental Health | <u>\$ 14,986,018</u> | <u>\$ 11,216,629</u> | <u>\$ 3,697,508</u> | \$ (71,881) | \$ (80,745) |
| General revenues | | | | | |
| Unrestricted investment earnings | | | | 74,885 | 81,928 |
| Restricted investment earnings | | | | <u>-</u> | <u>1,647</u> |
| Total general revenues | | | | <u>74,885</u> | <u>83,575</u> |
| Change in net assets | | | | 3,004 | 2,830 |
| Net assets - beginning of year | | | | 1,427,990 | 1,425,160 |
| Prior period adjustment | | | | <u>(10,252)</u> | <u>-</u> |
| Net assets - end of year | | | | <u>\$ 1,420,742</u> | <u>\$ 1,427,990</u> |

See Accompanying Notes To Financial Statements

FUND FINANCIAL STATEMENTS



Tuscola County Community Mental Health Authority
Balance Sheet
Governmental Funds
September 30, 2008 and 2007

| | General Fund | |
|---|---------------------|---------------------|
| | 2008 | 2007 |
| Assets | | |
| Cash and equivalents | \$ 102,738 | \$ 22,765 |
| Investments | 833,562 | 1,163,203 |
| Accounts receivable | 43,825 | 106,825 |
| Due from other funds | - | 22,730 |
| Due from other governmental units | 196,109 | 121,276 |
| Inventory | 78,369 | 176,841 |
| Prepaid items | 247,163 | 138,630 |
| Restricted cash | 323,361 | 311,199 |
| Total assets | <u>\$ 1,825,127</u> | <u>\$ 2,063,469</u> |
| Liabilities | | |
| Accounts payable | \$ 380,637 | \$ 722,463 |
| Accrued wages and other payroll liabilities | 250,197 | 287,296 |
| Deferred revenue | 13,129 | 53,474 |
| Due to other governmental units | 52,213 | 134,529 |
| Total liabilities | <u>696,176</u> | <u>1,197,762</u> |
| Fund balances | | |
| Reserved for: | | |
| Prepaid items | 247,163 | 138,630 |
| Compensated absences | 323,361 | 311,199 |
| Unreserved | 558,427 | 415,878 |
| Total fund balances | <u>1,128,951</u> | <u>865,707</u> |
| Total liabilities and fund balances | <u>\$ 1,825,127</u> | <u>\$ 2,063,469</u> |

See Accompanying Notes To Financial Statements

Tuscola County Community Mental Health Authority
Reconciliation of Fund Balances on the Balance Sheet for Governmental Funds
to Net Assets of Governmental Activities on the Statement of Net Assets
For the Year Ended September 30, 2008

| | |
|---|--------------|
| Total fund balance - governmental funds | \$ 1,128,951 |
|---|--------------|

Amounts reported for governmental activities in the statement of net assets are different because:

Capital assets used in governmental activities are not financial resources and therefore are not reported in the funds.

| | | |
|---------|--------------------------|-------------|
| Add: | capital assets | 4,976,349 |
| Deduct: | accumulated depreciation | (1,709,694) |

Some liabilities are not due and payable in the current period and, therefore, are not reported in the funds.

Those liabilities consist of:

| | | |
|---------|----------------------|------------------|
| Deduct: | notes payable | (2,622,790) |
| Deduct: | compensated absences | <u>(352,074)</u> |

| | |
|---------------------------------------|----------------------------|
| Net assets of governmental activities | <u><u>\$ 1,420,742</u></u> |
|---------------------------------------|----------------------------|

See Accompanying Notes To Financial Statements

Tuscola County Community Mental Health Authority
Statement of Revenues, Expenditures and Changes in Fund Balances
Governmental Funds
For the Years Ending September 30, 2008 and 2007

| | General Fund | |
|------------------------------------|-------------------|-------------------|
| | 2008 | 2007 |
| Revenues | | |
| State grants | | |
| State general fund - MDCH Contract | \$ 1,676,500 | \$ 1,635,585 |
| Adult Benefit Waiver | 196,099 | 171,795 |
| Title XX | 5,843 | 5,843 |
| Total state grants | <u>1,878,442</u> | <u>1,813,223</u> |
| Federal grants | <u>28,466</u> | <u>39,102</u> |
| Contributions - local units | | |
| County appropriations | <u>288,243</u> | <u>288,243</u> |
| Charges for services | | |
| Medicaid - affiliate | 10,896,585 | 10,626,149 |
| Medicaid - other | 41,651 | 64,205 |
| Client and third party pay | 177,722 | 190,578 |
| Contract revenue | 100,671 | 47,352 |
| Total charges for services | <u>11,216,629</u> | <u>10,928,284</u> |
| Interest and rents | | |
| Interest | <u>74,885</u> | <u>81,928</u> |
| Other revenue | | |
| Cass Valley Enterprises | 1,452,932 | 820,036 |
| Other | 49,425 | 29,588 |
| Total other revenue | <u>1,502,357</u> | <u>849,624</u> |
| Total revenues | 14,989,022 | 14,000,404 |

See Accompanying Notes To Financial Statements

Tuscola County Community Mental Health Authority
Statement of Revenues, Expenditures and Changes in Fund Balances
Governmental Funds
For the Years Ending September 30, 2008 and 2007

| | General Fund | |
|--|---------------------|-------------------|
| | 2008 | 2007 |
| Expenditures | | |
| Health & welfare - mental health | | |
| Personnel costs | \$ 6,467,738 | \$ 6,022,492 |
| Operating expenditures | 8,057,570 | 7,664,795 |
| Capital outlay | 473,242 | 1,175,339 |
| Debt service | | |
| Interest | 121,643 | 75,363 |
| Principal | 150,585 | 135,772 |
| | | |
| Total expenditures | <u>15,270,778</u> | <u>15,073,761</u> |
| Excess of revenues over expenditures | (281,756) | (1,073,357) |
| Other financing sources (uses) | | |
| Loan proceeds | 555,252 | 1,001,002 |
| Operating transfers in - internal service fund | <u>-</u> | <u>22,730</u> |
| | | |
| Total other financing sources (uses) | <u>555,252</u> | <u>1,023,732</u> |
| Excess of revenues and other sources over (under) expenditures and other uses | 273,496 | (49,625) |
| Fund balance, beginning of year | 865,707 | 915,332 |
| Prior period adjustment | <u>(10,252)</u> | <u>-</u> |
| Fund balance, end of year | <u>\$ 1,128,951</u> | <u>\$ 865,707</u> |

See Accompanying Notes To Financial Statements

Tuscola County Community Mental Health Authority
Reconciliation of the Statement of Revenues, Expenditures and Changes in
Fund Balances of Governmental Funds to the Statement of Activities
For the Year Ended September 30, 2008

| | | |
|--|----|---------|
| Net change in fund balances - total governmental funds | \$ | 273,496 |
|--|----|---------|

Amounts reported for governmental activities in the statement
of activities are different because:

Governmental funds report capital outlays as expenditures.
However, in the statement of activities, the cost of those
assets is allocated over their estimated useful lives
as depreciation expense.

| | | |
|---------|------------------------------------|-----------|
| Add: | capital outlay | 473,242 |
| Deduct: | depreciation expense | (299,889) |
| Deduct: | loss on disposal of capital assets | (2,779) |

Fixed assets acquired by long term loans are shown as an
expenditure and other financing source in the governmental
funds. The other financing source must be removed from the
the statement of activities; principal payments are applied to
the long-term liability; interest expense is recognized as it accrues.

| | | |
|---------|---------------|-----------|
| Deduct: | loan proceeds | (555,252) |
|---------|---------------|-----------|

Payment of principal on long-term debt is an expenditure in the
governmental funds, but not in the statement of activities (where
it reduces long-term debt).

| | | |
|------|--------------------------------------|---------|
| Add: | principal payments on long term debt | 150,585 |
|------|--------------------------------------|---------|

Some expenses reported in the statement of activities do not
require the use of current financial resources and, therefore,
are not reported as expenditures in the funds.

| | | |
|---------|---------------------------------------|----------|
| Deduct: | increase in accrual for comp absences | (36,399) |
|---------|---------------------------------------|----------|

| | | |
|---|----|-------|
| Change in net assets of governmental activities | \$ | 3,004 |
|---|----|-------|

See Accompanying Notes To Financial Statements

Tuscola County Community Mental Health Authority
Statement of Net Assets
Proprietary Funds
September 30, 2008 and 2007

| | Internal Service Funds | |
|--------------------------------|------------------------|-----------|
| | 2008 | 2007 |
| Assets | | |
| Cash | \$ - | \$ 22,730 |
| Total assets | - | 22,730 |
| Liabilities | | |
| Due to other funds | - | 22,730 |
| Net assets | | |
| Restricted for risk management | \$ - | \$ - |

See Accompanying Notes To Financial Statements

Tuscola County Community Mental Health Authority
Statement of Revenues, Expenses and Changes in Fund Net Assets
Proprietary Funds
For the Years Ended September 30, 2008 and 2007

| | Internal Service Funds | |
|---|------------------------|-------------|
| | 2008 | 2007 |
| Non-operating revenues | | |
| Interest income | \$ - | \$ 1,647 |
| Operating transfers | | |
| Operating transfers in (out) - general fund | - | (22,730) |
| Change in net assets | - | (21,083) |
| Prior period adjustment | - | - |
| Net assets, beginning of year | - | 21,083 |
| Net assets, end of year | <u>\$ -</u> | <u>\$ -</u> |

See Accompanying Notes To Financial Statements

Tuscola County Community Mental Health Authority
Statement of Cash Flows
Proprietary Funds
For the Years Ended September 30, 2008 and 2007

| | Internal Service Funds | |
|---|------------------------|------------------|
| | 2008 | 2007 |
| Cash flows from operating activities | \$ - | \$ - |
| Cash flows from investing activities | | |
| Interest revenue | - | 1,647 |
| Cash flows from noncapital financing activities | | |
| Internal activity - payments (to)/from other funds | - | (88,515) |
| Net increase (decrease) in cash | - | (86,868) |
| Cash and cash equivalents, beginning of year | - | 109,598 |
| Cash and cash equivalents, end of year | <u>\$ -</u> | <u>\$ 22,730</u> |
| Reconciliation of operating income to net cash provided by (used for) operating activities: | | |
| Operating income (loss) | - | - |

See Accompanying Notes To Financial Statements

NOTES TO THE FINANCIAL STATEMENTS



Tuscola County Community Mental Health Authority
Notes to Financial Statements

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The accounting policies of the Tuscola County Community Mental Health Authority (the Authority) conform to accounting principles generally accepted in the United States of America as applicable to governmental units. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles. The following is a summary of the significant accounting policies used by the Authority.

Reporting Entity

The Authority operates as a Community Mental Health Authority under the provisions of Act 258 - Public Acts of 1974, as amended. The Authority provides funding for services in the areas of mental illness, developmental disabilities, and other related mental health needs for residents of Tuscola County.

The accompanying financial statements have been prepared in accordance with criteria established by the Governmental Accounting Standards Board for determining the various governmental organizations to be included in the reporting entity. These criteria include significant operational financial relationships that determine which of the governmental organizations are a part of the Authority's reporting entity, and which organizations are legally separate, component units of the Authority. Based on the application of the criteria, the Authority does not contain any component units.

Government-Wide and Fund Financial Statements

The government-wide financial statements (i.e. the statement of net assets and the statement of activities) report information on all of the non-fiduciary activities of the Authority. For the most part, the effect of interfund activity has been removed from these statements. Governmental activities, which normally are supported by taxes and intergovernmental revenues, are reported separately from business-type activities, which rely to a significant extent on fees and charges for support.

The statement of activities demonstrates the degree to which the direct expenses of a function are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function. Program revenues include charges to consumers who purchase, use or directly benefit from services provided by a given function. Program revenues also include grants and contributions that are restricted to meeting the operational or capital requirements of a particular function. Other items not properly included among program revenues are reported instead as general revenues. Resources that are dedicated internally are reported as general revenues rather than as program revenues.

Tuscola County Community Mental Health Authority
Notes to Financial Statements

Net assets are restricted when constraints placed on them are either externally imposed or are imposed by constitutional provisions or enabling legislation. Internally imposed designations of resources are not presented as restricted net assets. When both restricted and unrestricted resources are available for use, generally it is the Authority's policy to use restricted resources first, then unrestricted resources as they are needed.

Separate financial statements are provided for governmental funds and proprietary funds. Major individual governmental funds are reported as separate columns in the fund financial statements.

Measurement Focus, Basis of Accounting and Financial Statement Presentation

Government-Wide Financial Statements – The government-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

Governmental Fund Financial Statements – The governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be available when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the Authority considers revenues to be available if they are collected within 60 days of the end of the current fiscal year end. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, as well as expenditures related to compensated absences and severance pay, are recorded only when payment is due.

Proprietary Fund Financial Statements – The financial statements of the proprietary funds are reported using the economic resources measurement focus and the accrual basis of accounting, similar to the government-wide statements described above.

Tuscola County Community Mental Health Authority
Notes to Financial Statements

Private-sector standards of accounting and financial reporting issued prior to December 1, 1989, are followed to the extent that those standards do not conflict with or contradict guidance of the Governmental Accounting Standards Board. Proprietary funds distinguish operating revenues and expenses from non-operating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. Revenues and expenses not meeting this definition are reported as non-operating revenues and expenses. The principal operating revenues of the internal service fund are charges to other funds for insurance services. Operating expenses for internal service funds include the cost of claims, administration and reinsurance. Any revenues and expenses not meeting this definition are reported as non-operating revenues and expenses.

The Authority reports the following major governmental and proprietary funds:

Governmental Funds

General Fund – This fund is the Authority's primary operating fund. It accounts for all financial resources of the Authority, except those required to be accounted for in other funds.

Proprietary Funds

Internal Service Fund – This fund represents amounts set aside to fund the net uninsured exposure of potential shortfalls of contract revenues.

Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenditures during the reporting period. Actual results could differ from those estimates.

Comparative Data

Comparative total data for the prior year has been presented in order to provide an understanding of the changes in financial position and operations. Also, certain amounts presented in the prior year may have been reclassified in order to be consistent with the current year's presentation.

Tuscola County Community Mental Health Authority
Notes to Financial Statements

Budgetary Data

The Authority adopts an annual budget for the general fund. The budget is adopted and prepared on the modified accrual basis of accounting. The budget is also adopted at the function level. The budgeted revenues and expenditures for governmental fund types, as presented in this report, include any authorized amendments to the original budget as adopted.

Cash and Cash Equivalents

The Authority's cash and cash equivalents are considered to be cash on hand, money market funds, demand deposits and certificates of deposit.

Restricted Cash Equivalents

The Authority has charged to the Department of Community Health the vested portion of compensated absences as of September 30. Cash has been restricted for future payment of the compensated absence liability as well as to fund the net uninsured exposure of potential shortfalls of risk contract revenues. These restricted assets are held in separate cash accounts with local financial institutions.

Receivables

Accounts receivable in all funds report amounts that have arisen in the ordinary course of business and are stated net of allowances for uncollectible amounts.

Due from other governmental units consist primarily of amounts due from Tuscola County and the Michigan Department of Community Health.

Receivables and Payables between Funds

Activity between funds that are representative of lending / borrowing arrangements outstanding at the end of the fiscal year are referred to as either "due to / from other funds" (i.e. the current portion of interfund loans) or "advances to / from other funds" (i.e. the non-current portion of interfund loans). All other outstanding balances between funds are reported as "due to / from other funds". Any residual balances outstanding between the governmental activities are reported in the government-wide financial statements as "internal balances".

Prepaid Items

Certain payments to vendors reflect costs applicable to future accounting periods and are recorded as prepaid items in both government-wide and fund financial statements.

Tuscola County Community Mental Health Authority
Notes to Financial Statements

Inventory

Inventory is recorded at the lower of cost or market on a first-in, first-out basis. The cost is recorded as an expenditure at the time individual inventory items are sold rather than when purchased.

Capital Assets

Capital assets, which include property, plant and equipment, are reported in the governmental activities column in the government-wide financial statements. Capital assets are defined by the government as individual assets with an initial cost equal to or more than \$5,000 and an estimated useful life in excess of one year. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair value at the date of donation.

The cost of normal maintenance and repairs that do not add to the value of the asset or materially extend assets' lives are not capitalized.

The Authority does not have infrastructure type assets.

Major outlays for capital assets and improvements are capitalized as projects are constructed. Interest incurred during construction of capital assets is not capitalized. No interest expense was incurred during the current year.

Capital assets utilized in the governmental funds are recorded as expenditures in the governmental fund financial statements. Depreciation expense is recorded in the government-wide financial statements.

Capital assets of the Authority are depreciated using the straight line method over the following estimated useful lives:

| Assets | Years |
|----------------------------|-----------------------|
| | |
| Land | N/A – Not Depreciated |
| Buildings and Improvements | 20 – 30 |
| Equipment and Furnishings | 4 – 10 |
| Computers | 3 |
| Vehicles | 5 |

Tuscola County Community Mental Health Authority
Notes to Financial Statements

Inpatient / Residential Cost Liability

The amount recorded for inpatient / residential liability is based on management's estimate. This estimate is based on 1) the number of clients at each facility, 2) the number of days each client is at each facility, and 3) the daily rate charged for each facility.

The Authority does not receive actual billings for these services until several months after the service date. Therefore, the liability is not liquidated within the normal 60 day period after year end. Also, the actual cost may vary from the estimated due to reimbursements from third party payors that are applied to the total cost before the billings are sent to the Authority. This liability is included in due to other governmental units.

Deferred Revenue

Deferred revenues arise when resources are received by the Authority before it has a legal claim to them. In subsequent periods, when the revenue recognition criterion is met, or when the Authority has a legal claim to the resources, the liability for deferred revenue is removed from the fund financial statements and government-wide financial statements, and revenue is recognized.

Governmental Fund – Fund Balance Reserves and Designations

The governmental fund financial statements present fund balance reserves for those portions of fund balance (1) not available for appropriation for expenditure or (2) legally segregated for a specific future use. The reserves for related assets such as prepaid items are examples of the former. Reserves for compensated absences are examples of the latter.

MDCH Revenue

General Fund Revenue

The Authority provides mental health services on behalf of the Michigan Department of Community Health (MDCH). Currently, the Authority contracts directly with the MDCH for General Fund revenues to support the services provided for priority population residing in Tuscola County.

Medicaid Revenue

Also, the Authority contracts to receive Medicaid revenue through Bay-Arenac Behavioral Health for Medicaid-qualified services rendered to residents of Tuscola County. Bay-Arenac Behavioral Health contracts with the MDCH to administer these Medicaid funds.

Tuscola County Community Mental Health Authority
Notes to Financial Statements

NOTE 2 – STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY

Budgetary Information

Annual budgets are adopted at the function level and on a basis consistent with generally accepted accounting principles for all governmental funds. All annual appropriations lapse at fiscal year end. The Authority does not maintain a formalized encumbrance accounting system. The budgeted revenues and expenditures, as presented in this report, include any authorized amendments to the original budget as adopted.

Excess of Expenditures over Appropriations

P.A. 621 of 1978, Section 18(1), as amended, provides that a local unit shall not incur expenditures in excess of the amount appropriated.

During the year ended September 30, 2008, the Authority incurred expenditures in excess of the amounts appropriated as shown at the back of this report.

NOTE 3 – DETAIL NOTES

Cash and cash equivalents

At September 30, the carrying amount of the Authority's cash and cash equivalents are as follows:

| | 2008 | 2007 |
|-------------------------------|------------------|------------------|
| Petty cash | \$1,101 | \$1,730 |
| Checking and savings accounts | 424,998 | 354,964 |
| | | |
| Totals | \$426,099 | \$356,694 |

Tuscola County Community Mental Health Authority
Notes to Financial Statements

Custodial Credit Risk – Deposits

Custodial credit risk is the risk that, in the event of a bank failure, the Authority's deposits might not be recovered. At September 30, 2008, the carrying amount of the Authority's deposits was \$424,998, and the bank balance was \$758,663. Of the bank balance, \$100,000 was covered by federal depository insurance and the remainder was uninsured and uncollateralized. Deposits which exceed FDIC insurance coverage limits are held at local banks. The Authority believes that due to the dollar amounts of cash deposits and the limits of FDIC insurance, it is impractical to insure all bank deposits. As a result, the Authority evaluates each financial institution with which it deposits funds and assesses the level of risk of each institution. Only those institutions with an acceptable estimated risk level are used as depositories.

A reconciliation of deposits as shown above follows:

| | 2008 | 2007 |
|---|------------------|------------------|
| Cash and cash equivalents – current assets | \$101,637 | \$21,035 |
| Cash and cash equivalents – restricted assets | 323,361 | 333,929 |
| | | |
| Totals | \$424,998 | \$354,964 |

Investments

As of September 30, 2008, the Authority had the following investments:

| Investment Type | Fair Value | Weighted Average Maturity (years) | Fitch Rating | % |
|--|-------------------|--|---------------------|----------|
| | | | | |
| Michigan Cooperative Liquid Asset Securities System (MI CLASS) | \$833,562 | .0813 | AAA/V1 | 100% |
| | | | | |
| 1 day maturity equals 0.0027, one year equals 1.00 | | | | |

Tuscola County Community Mental Health Authority
Notes to Financial Statements

Investments

State statutes authorize the Authority to invest in obligations and certain repurchase agreements of the United States Treasury and related governmental agencies, commercial paper, banker's acceptances of the United States banks, obligations of the State of Michigan or any of its political subdivisions, and mutual funds composed entirely of the above investments. See above for a listing of the Authority's investments.

The Authority's investment policy complies with the state statutes and has no additional investment policies that would limit its investment choices.

Interest Rate Risk – Investments

Under state statutes, investment in commercial paper is limited to maturities of not more than 270 days after the date of purchase. The Authority's investment policy does not place any further limitations on investment maturities as a means of managing its exposure to fair value losses arising from increasing interest rates.

Custodial Credit Risk – Investments

Custodial credit risk is the risk that, in the event of a failure of the counterparty, the Authority will not be able to recover the value of its investments that are in the possession of an outside party. The Authority requires all security transactions, including collateral for repurchase agreements, to be made on a cash basis or a delivery vs. payment basis. Securities may be held by a third party custodian and must be evidenced by safekeeping receipts. The Authority does not have any additional policies for custodial credit risk over investments.

Credit Risk

State statutes limit investments in commercial paper to be rated at the time of purchase within the three highest classifications established by not less than two standard rating services. Investments in obligations of the State of Michigan or its political subdivisions must be rated as investment grade by not less than one rating service. Investments in bonds, obligations, or repurchase agreements must be made with the U.S. Treasury and banker's acceptances with United States banks. The Authority's investment policy limits investments to be made with prudent judgment as to the safety of the invested capital and probable outcome of income.

Concentration of Credit Risk

The Authority places no limit on the amount it may invest in any one issuer.

Tuscola County Community Mental Health Authority
Notes to Financial Statements

Due from Other Governmental Units

Due from other governmental units as of September 30, consists of the following:

| | 2008 | 2007 |
|---|------------------|------------------|
| State of Michigan – Medicaid | \$1,149 | \$5,858 |
| Department of Community Health | - | 27,082 |
| County of Tuscola | 72,061 | 72,061 |
| Department of Community Health OBRA Grant | 3,490 | 4,446 |
| Various Other Governmental Units | 8,376 | 7,840 |
| Bay-Arenac Behavioral Health | 111,033 | 3,989 |
| | | |
| Totals | \$196,109 | \$121,276 |

Changes in Capital Assets

A summary of changes in the Authority's capital assets follows:

| Asset | Beginning Balance | Additions | Disposals/ Adjustments | Ending Balance |
|---------------------------------|--------------------------|------------------|-----------------------------------|-----------------------|
| Land | \$205,101 | \$- | \$- | \$205,101 |
| Buildings and Improvements | 2,914,509 | 152,160 | - | 3,066,669 |
| Equipment and Furnishings | 444,626 | 14,928 | (56,113) | 403,441 |
| Computers | 234,313 | - | (194,851) | 39,462 |
| Vehicles | 1,117,478 | 306,154 | (161,956) | 1,261,676 |
| Sub-total | 4,916,027 | 473,242 | (412,920) | 4,976,349 |
| | | | | |
| Accumulated Depreciation | | | | |
| Buildings and Improvements | (318,758) | (127,616) | - | (446,374) |
| Equipment and Furnishings | (313,565) | (81,272) | 56,113 | (338,724) |
| Computers | (234,313) | - | 194,851 | (39,462) |
| Vehicles | (953,310) | (91,001) | 159,177 | (885,134) |
| Sub-total | (1,819,946) | (299,889) | 410,141 | (1,709,694) |
| | | | | |
| Totals | \$3,096,081 | \$173,353 | (\$2,779) | \$3,266,655 |

Depreciation expense was charged to the Health & Welfare Mental Health Program.

Tuscola County Community Mental Health Authority
Notes to Financial Statements

Accrued Wages and Other Payroll Liabilities

This liability represents amounts paid to employees during October that was earned during September. Also included are employer payroll taxes.

Due to Other Governmental Units

Due to other governmental units as of September 30, consist of the following:

| | 2008 | 2007 |
|--|-----------------|------------------|
| State of Michigan-Inpatient Liability | \$29,916 | \$102,839 |
| Bay-Arenac Behavioral Health | 10,212 | 20,698 |
| State of Michigan-Department of Community Health | 11,960 | 10,992 |
| Various Other Governmental Units | 125 | - |
| | | |
| Totals | \$52,213 | \$134,529 |

Deferred Revenue

The deferred revenue represents the carry forward allowance for the general fund portion of the Department of Community Health's authorization.

Long-Term Liabilities – Compensated Absences

Authority policy allows full time employees to accumulate "paid time off" at various rates, depending on the employee's length of service with the Authority. Amounts accumulated up to a maximum accrual are to be paid to the employee and recognized as an expense either when compensated absences are used or upon termination of employment, provided the employee has worked for the Authority for at least one year. As of September 30, 2008 and 2007, compensated absences liability was \$352,074 and \$315,675, respectively.

Tuscola County Community Mental Health Authority
Notes to Financial Statements

Long Term Debt – Notes Payable

Vehicle Loans

During the 2003 year, the Authority entered into one promissory note contract with Northstar Bank in Caro, Michigan for the purchase of three vehicles. Payments are due monthly in the amount of \$913, including interest at the rate of 4.9% per annum. As of September 30, 2008, the balance of this loan totals \$911.

During the 2004 year, the Authority entered into one promissory note contract with Northstar Bank in Caro, Michigan for the purchase of four vehicles. Payments are due monthly in the amount of \$1,212, including interest at the rate of 4.9% per annum. As of September 30, 2008, the balance of this loan totals \$1,316.

During the 2005 year, the Authority entered into two promissory note contracts with Northstar Bank in Caro, Michigan for the purchase of two vehicles. Payments are due monthly in the amount of \$1,269, including interest at the rate of 4.9% per annum. As of September 30, 2008, the balance of these loans total \$18,098.

During the 2006 year, the Authority entered into two promissory note contracts with Northstar Bank in Caro, Michigan for the purchase of five vehicles. Payments are due monthly in the amount of \$1,747, including interest at the rate of 5.5% and 6.75% per annum. As of September 30, 2008, the balance of these loans total \$53,967.

During the 2006 year, the Authority entered into a promissory note contract with GMAC for the purchase of one vehicle. Payments are due monthly in the amount of \$378, including interest at the rate of 0% per annum. As of September 30, 2008, the balance of this loan totals \$12,458.

During the 2008 year, the Authority entered into one promissory note contract with Northstar Bank in Caro, Michigan for the purchase of fifteen vehicles. Payments are due monthly in the amount of \$5,606, including interest at the rate of 3.95% per annum. As of September 30, 2008, the balance of this loan totals \$306,154.

Building Loans

During the 2003 year, the Authority entered into a promissory note contract with Mayville State Bank in Mayville, Michigan for the purchase of real property. During the 2005 year, the Authority refinanced this loan. Payments are due monthly in the amount of \$4,380, including interest at the rate of 4.05% per annum. As of September 30, 2008, the balance of this loan totals \$493,448.

Tuscola County Community Mental Health Authority
Notes to Financial Statements

During the 2004 year, the Authority entered into a promissory note contract with Mayville State Bank in Mayville, Michigan for the purchase of real property. Payments are due monthly in the amount of \$3,417, including interest at the rate of 3.9% per annum. As of September 30, 2008, the balance of this loan totals \$355,067.

During the 2005 year, the Authority entered into a promissory note contract with Mayville State Bank in Mayville, Michigan for the purchase of real property. Payments are due monthly in the amount of \$836, including interest at the rate of 4.15% per annum. As of September 30, 2008, the balance of this loan totals \$159,712.

During the 2007 year, the Authority entered into a promissory note contract with Citizens Bank in Flint, Michigan for the purchase of real property. Principal and interest payments are due monthly in the amount of \$9,068 beginning January 2008, with interest at the rate of 5.870% per annum. As of September 30, 2008, the balance of this loan totals \$1,221,659.

The annual installments to pay principal and interest on obligations outstanding at September 30, 2008 are as follows, including total interest payments of \$866,040.

| Year Ended September 30, | Amount |
|---------------------------------|---------------|
| 2009 | \$322,878 |
| 2010 | 306,923 |
| 2011 | 300,253 |
| 2012 | 280,831 |
| 2013 | 279,698 |
| 2014 – 2018 | 1,716,751 |
| 2019 – 2023 | 170,341 |
| 2024 – 2028 | 50,181 |
| 2029 – 2033 | 50,181 |
| 2034 – 2038 | 10,793 |

The changes in long term liabilities during the 2008 fiscal year are as follows:

| Liability | Beginning Balance | Additions | Reductions | Ending Balance | Current Portion |
|----------------------|--------------------------|------------------|--------------------|-----------------------|------------------------|
| Compensated Absences | \$315,675 | \$36,399 | \$- | \$352,074 | \$- |
| Vehicle Loans | 147,212 | 306,154 | (60,462) | 392,904 | 101,912 |
| Building Loans | 2,070,911 | 249,098 | (90,123) | 2,229,886 | 101,067 |
| | | | | | |
| Totals | \$2,533,798 | \$591,651 | (\$150,585) | \$2,974,864 | \$202,979 |

Tuscola County Community Mental Health Authority
Notes to Financial Statements

Employee Retirement Systems

MERS

Plan Description

The Authority participates in the Michigan Municipal Employees Retirement System (MERS), an agent multiple-employer defined benefit pension plan that covers substantially all of the employees of the Authority. The system provides retirement, disability and death benefits to plan members and their beneficiaries. MERS issues a publicly available financial report that includes financial statements and required supplementary information for the system. That report may be obtained by writing to Gabriel Roeder Smith & Company, One Towne Square, Suite 800, Southfield, Michigan 48076-3723.

The most recent period for which actuarial data was available was for the year ended December 31, 2007. The Authority's payroll for the employees covered by the system for the year ended December 31, 2007 was \$4,093,782.

As of December 31, 2007, employee membership data related to the pension plan was as follows:

| | |
|---|-----|
| Retirees and beneficiaries currently receiving benefits | 25 |
| Active plan participants | 102 |
| Vested former members | 21 |
| Total | 148 |

Funding Policy

Under the provisions of this plan, employees contribute 5% of annual compensation. The amount of employer contributions is determined on a yearly basis. For the year ending September 30, 2008, employer contributions to this retirement plan were \$109,152.

Tuscola County Community Mental Health Authority
Notes to Financial Statements

Funding Status and Progress

The amount shown below as the “pension benefit obligation” is based on the standardized disclosure measure of the present value of pension benefits, adjusted for the effects of projected salary increases and separate benefits, estimated to be payable in the future as a result of employee services to date. The measure is the actuarial present value of credited projected benefits and is intended to (1) help users assess the plan's funding status of the system on a going-concern basis; (2) assess progress made in accumulating sufficient assets to pay benefits when due; and (3) make comparisons among public employee retirement plans. The measure is independent of the actuarial funding method used to determine contributions to the plan.

The pension benefit obligation was determined as part of an actuarial valuation of the plan as of December 31, 2007. Significant actuarial assumptions used in determining the pension benefit obligation include (a) a rate of return on the investment of present and future assets of 8.0% and (b) projected salary increases of 4.5% per year plus a percentage based on an age-related scale to reflect merit, longevity and promotional salary increases.

At December 31, 2007, the assets were more than the pension benefit obligation by \$360,071, determined as follows:

| | |
|---|-----------------|
| GASB 25 Information | |
| <i>Actuarial Accrued Liability</i> | |
| Retirees and beneficiaries currently receiving benefits | \$2,711,875 |
| Terminated employees not yet receiving benefits | 1,499,820 |
| Non-vested terminated employees (pending refunds of accumulated member contributions) | 158,527 |
| Current Employees: | |
| Accumulated employee contributions including allocated investment income | 1,529,567 |
| Employer financed | 3,409,186 |
| Total actuarial accrued liability | 9,308,975 |
| Net assets available for benefits at actuarial value (market = \$9,781,840) | 9,669,046 |
| Unfunded (over funded) actuarial accrued liability | \$(360,071) |
| GASB 27 Information | |
| Fiscal Year Beginning | October 1, 2009 |
| Annual Required Contribution (ARC) | \$129,192 |
| Amortization factor used – under-funded liabilities (30 years) | .055889 |
| Amortization factor used – under-funded liabilities (10 years) | .119963 |

Tuscola County Community Mental Health Authority
Notes to Financial Statements

Three year trend information as of December 31 follows:

| Actuarial Valuation Date | Actuarial Value of Assets | Actuarial Accrued Liability (AAL) | Unfunded (Over funded) AAL | Unfunded AAL as a Percentage of Annual payroll |
|--------------------------------|---------------------------------|---|----------------------------------|--|
| 12-31-05 | 8,330,412 | 7,525,900 | (804,512) | 0% |
| 12-31-06 | 8,962,908 | 8,641,439 | (321,469) | 0% |
| 12-31-07 | 9,669,046 | 9,308,975 | (360,071) | 0% |

Principal Financial Group

Plan Description

Effective October 1, 1997, the Authority was considered a new governmental entity, and voted to join an optional retirement plan instead of the Social Security system for full time employees 18 years or older.

Funding Policy

Principal Life Insurance Company is the firm used to invest plan funds. Full Time employees contribute a mandatory 6.2% of their wages to this plan. Employer contributions are 6.2% of employee wages. These are the same contribution rates as the Social Security rates. Under this plan, employees are always 100% vested in their account.

Employees of the Authority not eligible to participate in this plan are covered by the Social Security system.

Compliance Audits

The Authority participates in various federal, state, and local grants for mental health and substance abuse programs. Certain provisions and allowable levels of participation and expenditures not qualifying for participation are subject to interpretation and adjustment by appropriate governmental agencies. State grants are subject to audit by responsible state agencies. Although these audits may result in some changes, they are not expected to have a material effect on the financial statements.

Tuscola County Community Mental Health Authority
Notes to Financial Statements

Risk Management

Michigan Municipal Risk Management Authority

The Authority participated in the public entity risk pool – Michigan Municipal Risk Management Authority (MMRMA) for auto and general liability, property and crime and vehicle physical damage coverage.

MMRMA, a separate legal entity, is a self-insured association organized under the laws of the State of Michigan to provide self-insurance protection against loss and risk management services to various Michigan governmental entities.

As a member of this pool, the Authority is responsible for paying all costs, including damages, indemnification, and allocated loss adjustment for each occurrence that falls within the member's self-insured retention (SIR). The Authority's SIR is between \$-0- and \$250. If a covered loss exceeds MMRMA's limits, all further payments for such loss are the sole obligation of the Authority. If for any reason, the MMRMA's resources available to pay losses are depleted, the payment of all unpaid losses of the Authority is the sole obligation of the Authority.

MMRMA's coverage limits are between \$0 and \$5,000,000 for liability and between \$10,000 and \$50,000,000 for property and crime.

The contribution made by the Authority to MMRMA was \$149,458 for the period July 1, 2008 to July 1, 2009.

Prior Period Adjustment

The amounts recognized in these financial statements for prior period adjustments represent adjustments to prior year cost settlements with the Michigan Department of Community Health.

Subsequent Event

After year-end, the Authority entered into an additional loan with Northstar Bank in Caro for the purchase of three vehicles. This loan was then merged with the 2008 loan from Northstar Bank for a total loan amount of \$408,196. Payments are due monthly in the amount of \$7,519, including interest at the rate of 3.95% per annum.

Tuscola County Community Mental Health Authority
Notes to Financial Statements

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REQUIRED SUPPLEMENTAL INFORMATION



Tuscola County Community Mental Health Authority
Statement of Revenues, Expenditures and Changes
in Fund Balance - Budget and Actual
General Fund
For the Year Ended September 30, 2008

| | Budgeted Amounts | | | Variance Between Actual and Final Budget |
|--|------------------|--------------|--------------|---|
| | Original | Final | Actual | |
| Revenues | | | | |
| State grants | | | | |
| State General Fund - MDCH Contract | \$ 1,626,050 | \$ 1,694,229 | \$ 1,676,500 | \$ (17,729) |
| Adult Benefit Waiver | 171,000 | 196,099 | 196,099 | - |
| Title XX | 5,842 | 5,842 | 5,843 | 1 |
| Total state grants | 1,802,892 | 1,896,170 | 1,878,442 | (17,728) |
| Federal grants | 37,760 | 27,000 | 28,466 | 1,466 |
| Contributions - local units | | | | |
| County appropriations | 288,244 | 288,243 | 288,243 | - |
| Charges for services | | | | |
| Medicaid - affiliate | 10,668,000 | 10,896,592 | 10,896,585 | (7) |
| Medicaid - other | 64,102 | 41,102 | 41,651 | 549 |
| Client and third party pay | 174,370 | 174,170 | 177,722 | 3,552 |
| Contract revenue | 31,052 | 90,780 | 100,671 | 9,891 |
| Total charges for services | 10,937,524 | 11,202,644 | 11,216,629 | 13,985 |
| Interest and rents | | | | |
| Interest | 74,974 | 74,300 | 74,885 | 585 |
| Other revenue | | | | |
| Cass Valley Enterprises | 209,102 | 1,452,779 | 1,452,932 | 153 |
| Other | 22,734 | 28,614 | 49,425 | 20,811 |
| Total other revenue | 231,836 | 1,481,393 | 1,502,357 | 20,964 |
| Total revenues | 13,373,230 | 14,969,750 | 14,989,022 | 19,272 |
| EXPENDITURES | | | | |
| Health & welfare - mental health | | | | |
| Personnel costs | 5,982,605 | 6,489,123 | 6,467,738 | 21,385 |
| Operating expenditures | 7,015,370 | 8,041,062 | 8,057,570 | (16,508) |
| Capital outlay | - | 473,616 | 473,242 | 374 |
| Debt service | 272,314 | 280,832 | 272,228 | 8,604 |
| Total expenditures | 13,270,289 | 15,284,633 | 15,270,778 | 13,855 |
| Excess of revenues over expenditures | 102,941 | (314,883) | (281,756) | 33,127 |
| Other financing sources (uses) | | | | |
| Loan proceeds | - | 555,525 | 555,252 | (273) |
| Excess of revenues and other sources over (under) expenditures and other uses | 102,941 | 240,642 | 273,496 | 32,854 |
| Fund balance, beginning of year | 865,707 | 865,707 | 865,707 | - |
| Prior period adjustment | - | - | (10,252) | (10,252) |
| Fund balance, end of year | \$ 968,648 | \$ 1,106,349 | \$ 1,128,951 | \$ 22,602 |

See Accompanying Notes To Financial Statements

OTHER SUPPLEMENTAL INFORMATION



Tuscola County Community Mental Health Authority
Supporting Schedule of Personnel Costs
For the Years Ending September 30, 2008 and 2007

| | General Fund | |
|------------------------|---------------------|---------------------|
| | 2008 | 2007 |
| Personnel Costs | | |
| Salaries and wages | \$ 4,900,299 | \$ 4,576,362 |
| Fringe benefits | <u>1,567,439</u> | <u>1,446,130</u> |
| Total personnel costs | <u>\$ 6,467,738</u> | <u>\$ 6,022,492</u> |

See Accompanying Notes To Financial Statements

Tuscola County Community Mental Health Authority
Supporting Schedule of Operating Expenditures
For the Years Ending September 30, 2008 and 2007

| | General Fund | |
|--|---------------------|---------------------|
| | 2008 | 2007 |
| Operating Expenditures | | |
| Client activities | \$ 21,071 | \$ 18,817 |
| Communications | 44,837 | 142,530 |
| Contractual services | 4,716,915 | 4,591,078 |
| Institutional and state residential care | 467,697 | 415,016 |
| Insurance | 101,176 | 117,562 |
| Local funds contribution | 282,804 | 282,804 |
| Other | 77,139 | 88,015 |
| Private hospitalization | 453,367 | 447,743 |
| Printing and publishing | 83,304 | 47,460 |
| Raw materials | 854,489 | 421,824 |
| Rental expense | 163,512 | 416,685 |
| Repairs and maintenance | 139,414 | 122,515 |
| Supplies | 453,265 | 350,492 |
| Travel | 103,783 | 82,442 |
| Utilities | 94,797 | 119,812 |
| Total operating expenditures | <u>\$ 8,057,570</u> | <u>\$ 7,664,795</u> |

See Accompanying Notes To Financial Statements



**REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING
AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF
FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH
GOVERNMENT AUDITING STANDARDS**

Board of Directors
Tuscola County Community Mental Health Authority
Caro, Michigan

We have audited the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Tuscola County Community Mental Health Authority (the Authority) as of and for the year ended September 30, 2008, which collectively comprise the Authority's basic financial statements and have issued our report thereon dated December 15, 2008. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States.

Internal Control over Financial Reporting

In planning and performing our audit, we considered the Authority's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Authority's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Authority's internal control over financial reporting.

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the Authority's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the Authority's financial statements that is more than inconsequential will not be prevented or detected by the Authority's internal control. We consider the deficiency described as 2008-1 in the accompanying schedule of findings and responses to be a significant deficiency in internal control over financial reporting.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the Authority's internal control.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control that might be significant deficiencies and, accordingly, would not necessarily disclose all significant deficiencies that are also considered to be material weaknesses.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Authority's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance that are required to be reported under *Government Auditing Standards*.

We noted certain matters that we reported to management of the Authority in a separate letter dated December 15, 2008.

Tuscola County Community Mental Health Authority's response to the findings identified in our audit is described in the accompanying schedule of findings and responses. We did not audit the Authority's response and, accordingly, we express no opinion on it.

This report is intended solely for the information and use of management and the Board of Directors and is not intended to be and should not be used by anyone other than these specified parties.



Roslund, Prestage & Company, P.C.
Certified Public Accountants

December 15, 2008

Schedule of Findings and Responses

Finding 2008-1

Finding considered a significant deficiency

Statement on Auditing Standards #112 titled *Communicating Internal Control Related Matters Identified in an Audit* (issued May 2006), requires us to communicate in writing when a client requires assistance to prepare the financial statements and related footnotes required in the annual audit report in accordance with accounting principles generally accepted in the United States of America.

The staff of the Authority does understand all information included in the annual financial statements; however, we assist in preparing the financial statements and related footnotes.

We do not recommend any changes to this situation at this time and communicate this as required by professional standards.

Client Response

We are aware of this deficiency and believe it is not cost beneficial in our situation to develop this expertise. We will continue to use our external auditors for this technical assistance. We would expect this situation to be ongoing in future years.



MANAGEMENT LETTER

Board of Directors
Tuscola County Community Mental Health Authority
Caro, Michigan

In planning and performing our audit of the financial statements for Tuscola County Community Mental Health Authority, for the fiscal year ended September 30, 2008, we considered the internal control structure to determine our auditing procedures for the purpose of expressing an opinion on the financial statements and not to provide assurance on the internal control structure.

However, during our audit we became aware of matters that are opportunities for strengthening internal controls and operating efficiency. The memorandum that accompanies this letter summarizes our comments and suggestions regarding those matters.

This letter does not affect our audit report dated December 15, 2008, on the financial statements of Tuscola County Community Mental Health Authority.

We will review the status of these comments during our next audit engagement. We have discussed these comments and suggestions with management, and will be pleased to discuss them with you in further detail, to perform any additional study of these matters, or to assist you in implementing the recommendations.

Sincerely,

A handwritten signature in black ink that reads 'Roslund, Prestage & Co, PC'. The signature is written in a cursive, flowing style.

Roslund, Prestage & Company, P.C.
Certified Public Accountants

December 15, 2008

STATUS OF PRIOR YEAR RECOMMENDATIONS

During the audit we were pleased to note that the recommendations identified in the management letter from the prior year had been implemented. We commend you on your efforts to strengthen internal controls and operating efficiencies.

CURRENT YEAR COMMENTS AND RECOMMENDATIONS

Increase Segregation of Duties and Review Functions Related to Payroll

During our audit we noted that individuals that prepare payroll also have the ability to alter payroll information such as employee hires and terminations, employee compensated absences and employee wage rates. We recommend that the Authority consider limiting this ability to the human resources department in order to increase the segregation of duties related to the payroll.

Also, we recommend that the Authority adopt a policy whereby management periodically reviews employee listings, being alert for unusual matters such as:

- duplicate names or addresses
- names of former employees
- unusual pay rates or numbers of hours worked
- factors that may indicate ghost employees

Review Vendor Lists

We recommend that periodically the CFO or another individual in the appropriate level of management review vendor lists for any unusual patterns, such as names that may be similar, but not identical to the names of approved vendors and vendors that have multiple addresses. In addition, the person periodically should inspect files of unpaid invoices and vendor statements to look for invoices that appear different from the norm; consecutive vendor invoice numbers; preprinted and non-customized forms; different delivery addresses; different telephone numbers, purchase order numbers, item descriptions, prices, or other unusual patterns; old or unusual vendors who recently had an address change; or current activity on an old or outdated vendor.

If the validity of a vendor is questioned, an appropriate person should take steps to verify the vendor's existence. Perhaps the most effective way to verify a vendor is to call the vendor and visit the vendor's facilities. Alternatively, an appropriate person can consult other information sources, such as the Better Business Bureau, credit reporting companies (such as Dun & Bradstreet), telephone directories, secretary of state incorporation records, or local partnership and assumed name records.

Uninsured Bank Deposits

During recent months the financial market has seen significant fluctuations leading many to question the security and availability of bank deposits held in financial institutions. Although most banks insure deposits through the Federal Deposit Insurance Corporation (FDIC), there are limits to that coverage.

It is our understanding that as of October 2008, the limits for FDIC insured balances are \$250,000 per entity per financial institution. Governmental units may also request certain funds be collateralized by the bank. There are also other options regarding the investment of surplus funds including investment pools, treasury investments, and commercial paper.

We are not investment advisors. However, we encourage you to meet with your investment representatives to review all of your options regarding surplus funds. We also recommend you review your investment policies to ensure it continues to satisfy the Authority's goals.